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Introduction to Strategy

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The Strategic Planning Process

The firm must engage in **strategic planning** that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

The Strategic Planning Process

Mission & Objectives → Environmental Scanning → Strategy Formulation → Strategy Implementation → Evaluation & Control

Mission and Objectives

The mission statement describes the company's business vision, including the unchanging values and purpose of the firm and forward-looking visionary goals that guide the pursuit of future opportunities.

Guided by the business vision, the firm's leaders can define measurable financial and strategic objectives. Financial objectives involve measures such as sales targets and earnings growth. Strategic objectives are related to the firm's business position, and may include measures such as market share and reputation.

Environmental Scan

The environmental scan includes the following components:

- Internal analysis of the firm
- Analysis of the firm's industry (task environment)
- External macroenvironment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis.

An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

Strategy Formulation

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats.

To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation.

Strategy Implementation

Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.

The way in which the strategy is implemented can have a significant impact on whether it will be successful.

Evaluation & Control

The implementation of the strategy must be monitored and adjustments made as needed.

Evaluation and control consists of the following steps:

1. Define parameters to be measured
2. Define target values for those parameters
3. Perform measurements
4. Compare measured results to the pre-defined standard
5. Make necessary changes

The Business Vision and Company Mission Statement

While a business must continually adapt to its competitive environment, there are certain core ideals that remain relatively steady and provide guidance in the process of strategic decision-making. These unchanging ideals form the **business vision** and are expressed in the company **mission statement**.

In their 1996 article entitled *Building Your Company's Vision*, James Collins and Jerry Porras provided a framework for understanding business vision and articulating it in a mission statement.

The Business Vision and Company Mission Statement

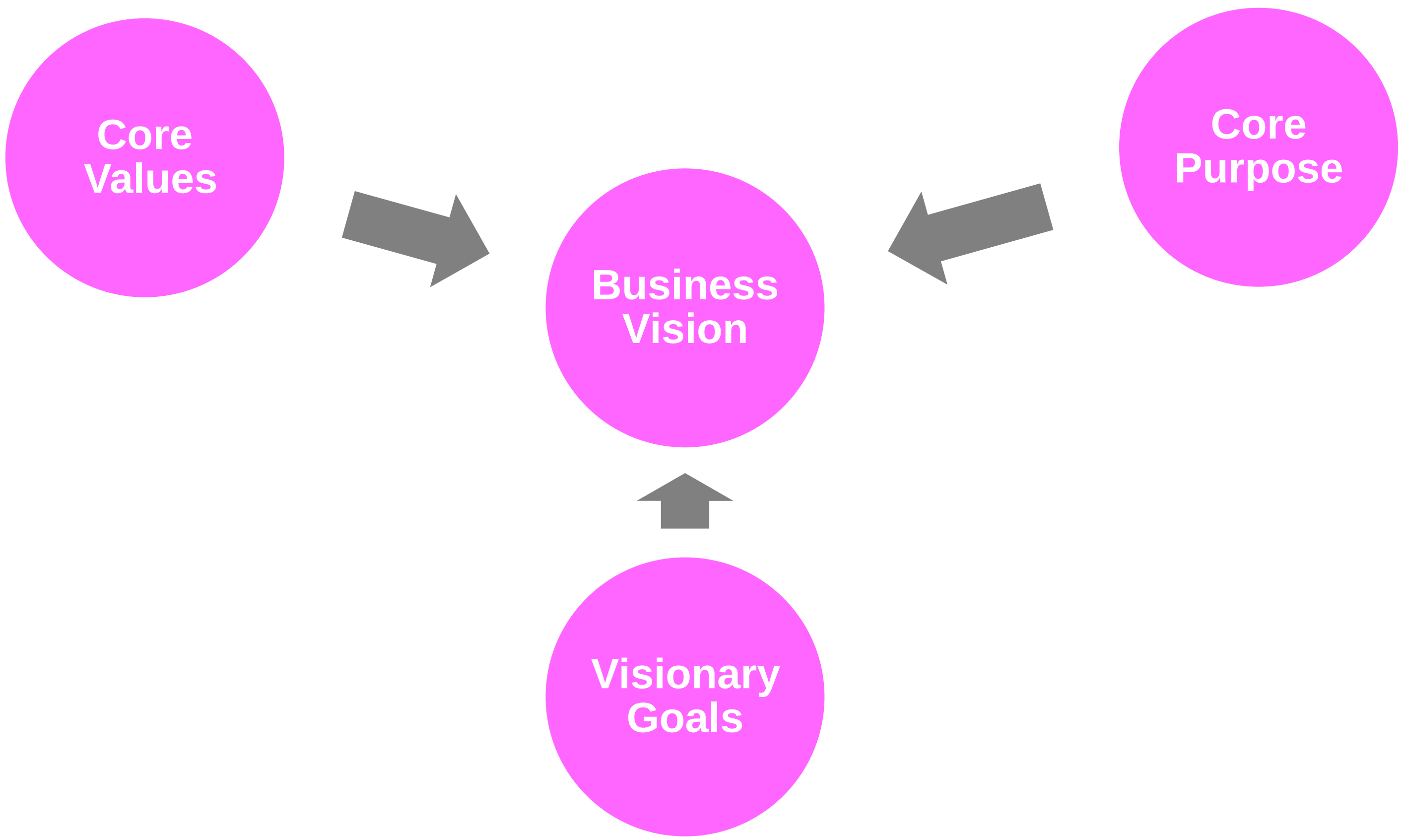
The mission statement communicates the firm's core ideology and visionary goals, generally consisting of the following three components:

Core values to which the firm is committed **Core purpose** of the firm **Visionary goals** the firm will pursue to fulfil its mission

The firm's core values and purpose constitute its core ideology and remain relatively constant. They are independent of industry structure and the product life cycle.

The core ideology is not created in a mission statement; rather, the mission statement is simply an expression of what already exists. The specific phrasing of the ideology may change with the times, but the underlying ideology remains constant.

The Business Vision and Company Mission Statement



Core Values

The core values are a few values (no more than five or so) that are central to the firm. Core values reflect the deeply held values of the organization and are independent of the current industry environment and management fads.

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http://www.gamesacorp.com/memoria2009/english/responsibility.html
http://www.veoliawaterst.co.uk/en/about/responsibility/VisionAndValues/
http://www.cerespower.com/AboutUs/CompanyOverview/

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Core Values

Core values will not change even if the industry in which the company operates changes. If the industry changes such that the core values are not appreciated, then the firm should seek new markets where its core values are viewed as an asset.

For example, if innovation is a core value but then 10 years down the road innovation is no longer valued by the current customers, rather than change its values the firm should seek new markets where innovation is advantageous.

Core Purpose

The core purpose is the reason that the firm exists. This core purpose is expressed in a carefully formulated mission statement.

Like the core values, the core purpose is relatively unchanging and for many firms endures for decades or even centuries.

This purpose sets the firm apart from other firms in its industry and sets the direction in which the firm will proceed.

Visionary Goals

This vision describes some milestone that the firm will reach in the future and may require a decade or more to achieve. In contrast to the core ideology that the firm discovers, visionary goals are selected.

Visionary Goals

Most visionary goals fall into one of the following categories:

- **Target** - quantitative or qualitative goals such as a sales target or Ford's goal to "democratize the automobile."
- **Common enemy** - centred on overtaking a specific firm such as the 1950's goal of Philip-Morris to displace RJR.
- **Role model** - to become like another firm in a different industry or market. For example, a cycling accessories firm might strive to become "the Nike of the cycling industry."
- **Internal transformation** - especially appropriate for very large corporations. For example, GE set the goal of becoming number one or number two in every market it serves.

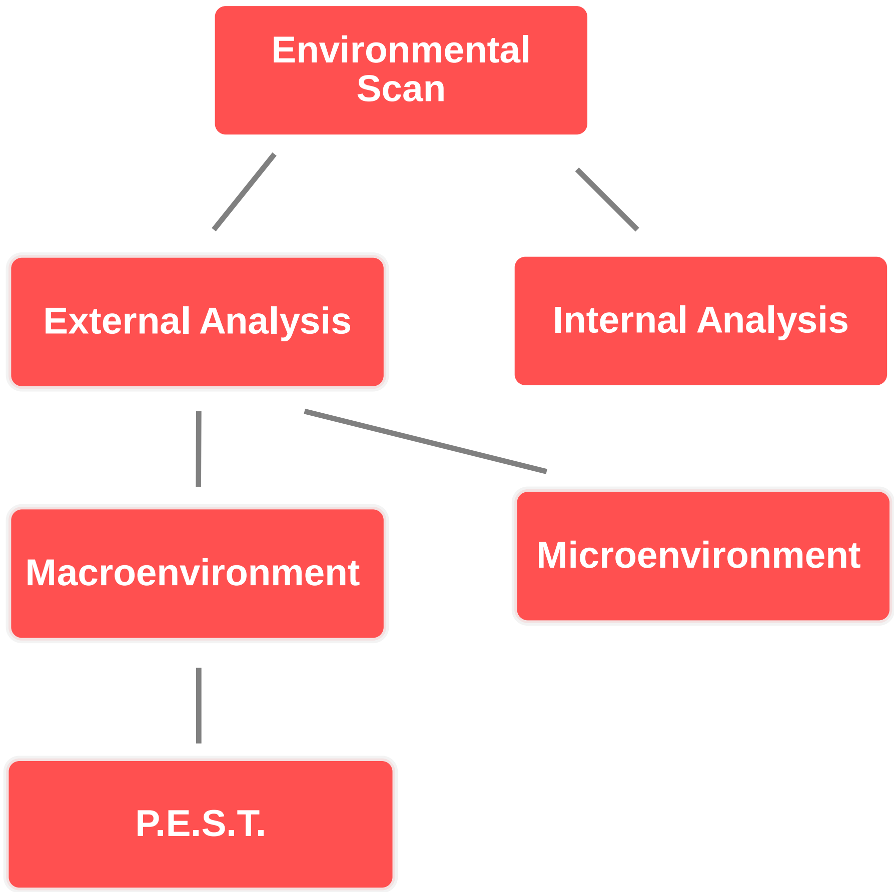
Visionary Goals

While visionary goals may require significant stretching to achieve, many visionary companies have succeeded in reaching them. Once such a goal is reached, it needs to be replaced; otherwise, it is unlikely that the organization will continue to be successful.

PEST Analysis

- A scan of the external macro-environment in which the firm operates can be expressed in terms of the following factors:
- **P**olitical **E**conomic **S**ocial **T**echnological
- The acronym **PEST** (or sometimes rearranged as "STEP") is used to describe a framework for the analysis of these macroenvironmental factors.

PEST Analysis

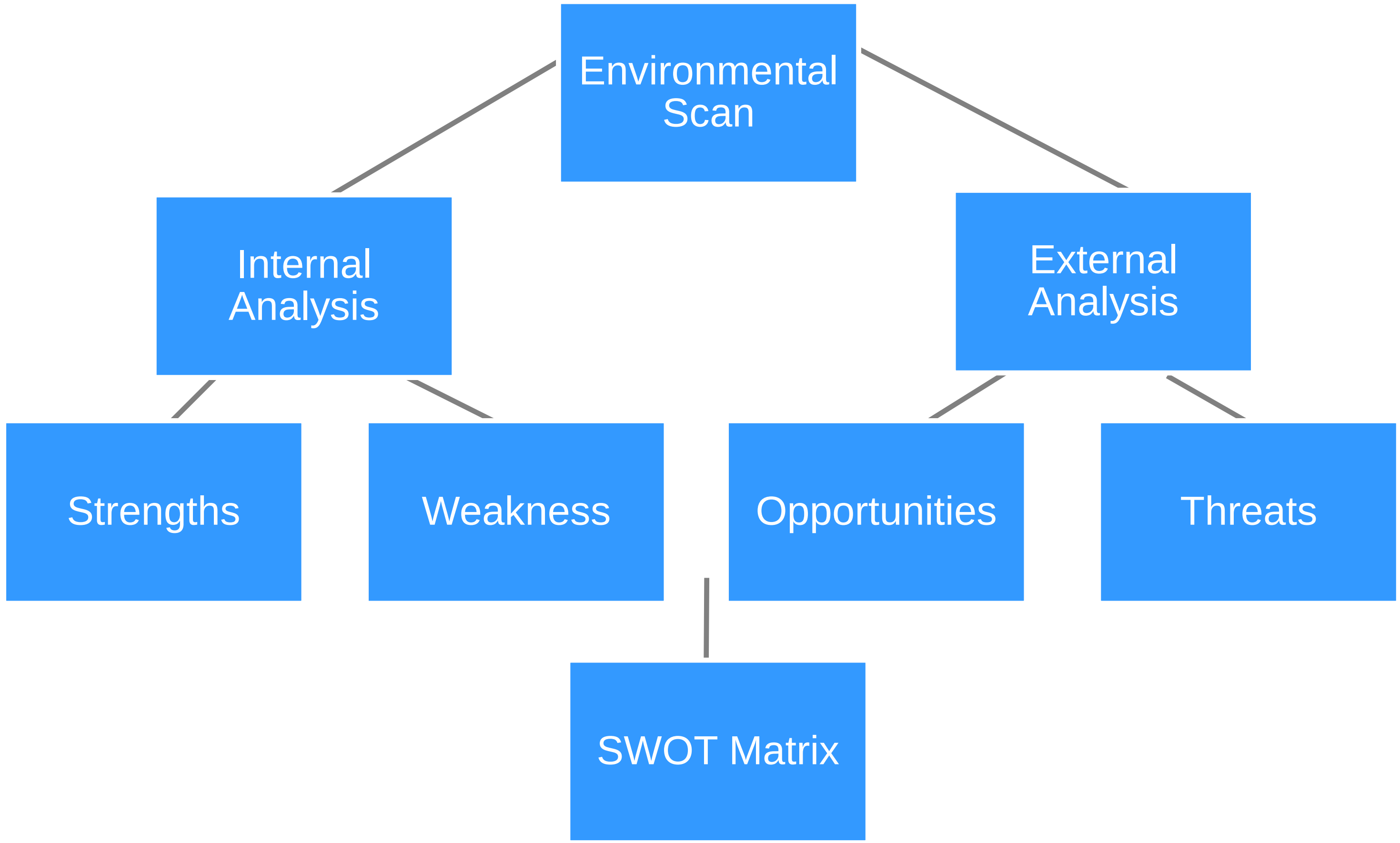


SWOT Analysis

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (**S**) or weaknesses (**W**), and those external to the firm can be classified as opportunities (**O**) or threats (**T**). Such an analysis of the strategic environment is referred to as a **SWOT analysis**.

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

SWOT Analysis Framework



Competitive Advantage

A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

Cost and differentiation advantages are known as *positional advantages* since they describe the firm's position in the industry as a leader in either cost or differentiation.

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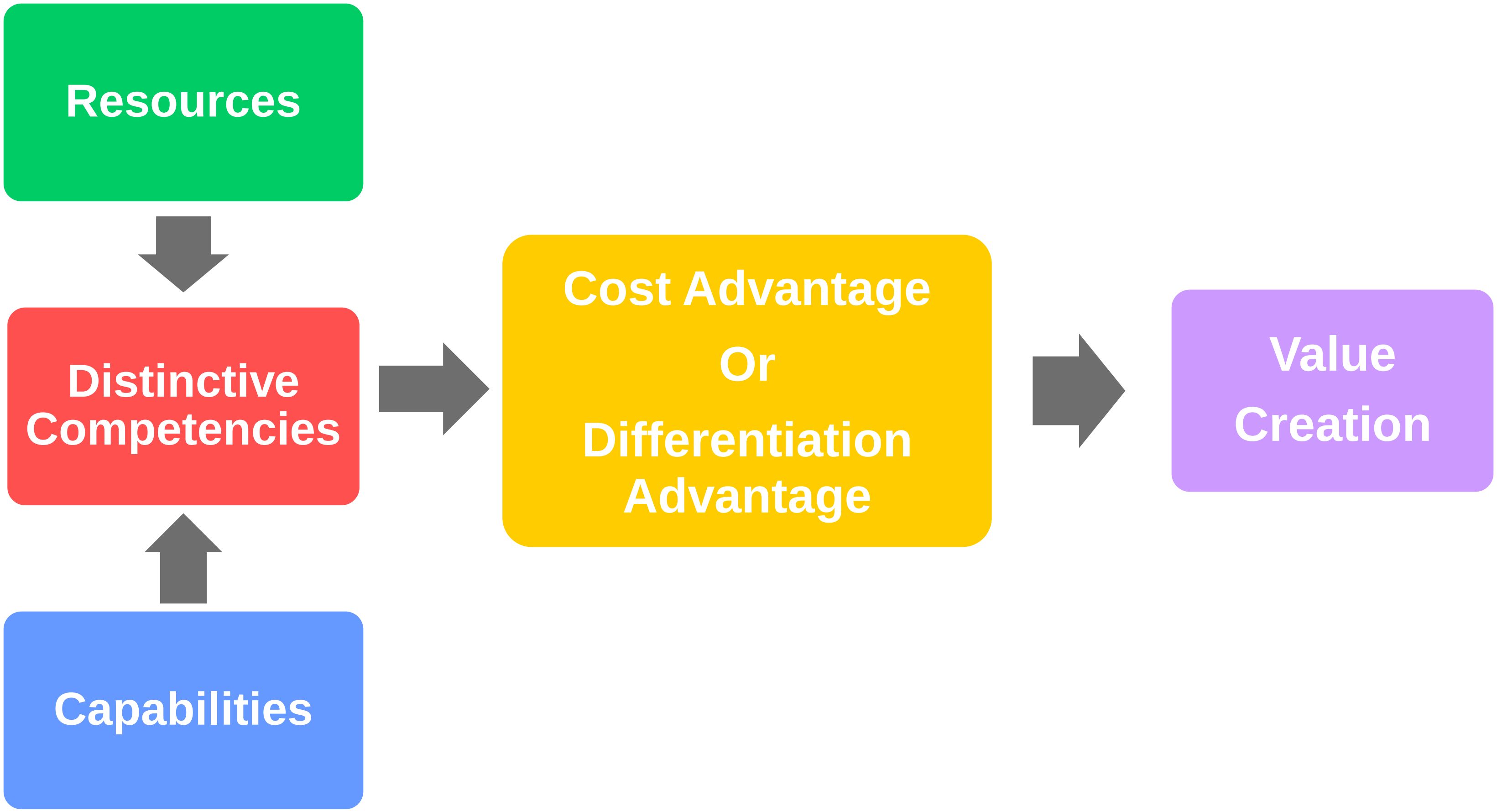
Competitive Advantage

A *resource-based view* emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

The following diagram combines the resource-based and positioning views to illustrate the concept of competitive advantage:

A Model of Competitive Advantage



Resources and Capabilities

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors.

Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear.

Resources

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources:

- Patents and trademarks
- Proprietary know-how
- Installed customer base
- Reputation of the firm
- Brand equity

Capabilities

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate.

The firm's resources and capabilities together form its **distinctive competencies**. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

Clarify Core Competencies

Articulate a strategic intent that defines your company and its markets (e.g., NEC's "exploit the convergence of computing and communications").

Identify core competencies that support that intent. Ask:

- How long could we dominate our business if we didn't control this competency?
- What future opportunities would we lose without it?
- Does it provide access to multiple markets?
- Do customer benefits revolve around it?

Forge Strategic alliances. NEC's collaboration with partners like Honeywell gave access to the mainframe and semiconductor technologies it needed to build core competencies.

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Build Core Competencies

Invest in new technologies. Citicorp trumped rivals by adopting an operating system that leveraged its competencies – and let it participate in world markets 24 hours a day.

Infuse resources throughout business units to outpace rivals in new business developments. 3M won races for global brand dominance by creating wide varieties of products from their core competencies. Results? They built image, customer loyalty, and access to distribution channels for all their businesses.

Cultivate a Core Competency Mind-Set

Stop thinking of business units as sacrosanct. That imprisons resources in units and motivates managers to hide talent as the company pursues hot opportunities.

Identify projects and people who embody the firm's core competencies. This sends a message: Core competencies are corporate – not unit – resources, and those who embody them can be reallocated.

Gather managers to identity next generation competencies. Decide how much investment each needs and how much capital and staff each division should contribute.

Cost Advantage and Differentiation Advantage

Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low cost or differentiation. This decision is a central component of the firm's competitive strategy.

Another important decision is how broad or narrow a market segment to target. Porter formed a matrix using cost advantage, differentiation advantage, and a broad or narrow focus to identify a set of generic strategies that the firm can pursue to create and sustain a competitive advantage.

Value Creation

The firm creates value by performing a series of activities that Porter identified as the value chain. In addition to the firm's own value-creating activities, the firm operates in a *value system* of vertical activities including those of upstream suppliers and downstream channel members.

To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation).

Porter's Five Forces : A Model for Industry Analysis

The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates.

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Porter's Five Forces : A Model for Industry Analysis

BARRIERS TO ENTRY
Absolute cost advantages
Proprietary learning curve
Access to inputs
Government policy
Economies of scale
Capital requirements
Brand identity
Switching costs
Access to distribution
Expected retaliation
Proprietary products

SUPPLIER POWER
Supplier concentration
Importance of volume to supplier
Differentiation of inputs
Impact of inputs on cost or differentiation
Switching costs of firms in the industry
Presence of substitute inputs
Threat of forward integration
Cost relative to total purchases in industry

THREAT OF SUBSTITUTES
-Switching costs
-Buyer inclination to substitute
-Price-performance trade-off of substitutes

BUYER POWER
Bargaining leverage
Buyer volume
Buyer information
Brand identity
Price sensitivity
Threat of backward integration
Product differentiation
Buyer concentration vs. industry
Substitutes available
Buyers' incentives

RIVALRY

DEGREE OF RIVALRY
-Exit barriers
-Industry concentration
-Fixed costs/Value added
-Industry growth
-Intermittent overcapacity
-Product differences
-Switching costs
-Brand identity
-Diversity of rivals
-Corporate stakes